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Financing the Education of High-Need Students

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Foreword by Chester E. Finn, Jr.

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Foreword and Summary

by Chester E. Finn, Jr.

America's approach to the education of children with disabilities is antiquated, costly, and ineffective. "Special education" as we know it is broken—and repainting the surface won't repair it. It cries out for a radical overhaul. Far too many children emerge from our special-ed system without the skills, knowledge, and competencies that they need for a successful life that fully capitalizes on their abilities. This ineffectual system is also very, very expensive. Yet for a host of reasons—inertia, timidity, political gridlock, fear of litigation, fear of interest groups, ignorance, lack of imagination, and so on—neither our education leaders nor our policy leaders have shown any inclination to modernize it. Instead, they settle for "paint jobs"—waivers and the like.

Federal policy is responsible for much of this failure. Even though the education world has changed around it—as have technology, mobility, fiscal conditions, demographics, and so much more—it remains essentially stuck where it was in 1975 when the first major national law in this realm (now known as the Individuals with Disabilities Education Act or IDEA) was passed.

It was much needed at the time. Many children with disabilities (in those days they were called "handicapped") had been denied education or given versions of it wholly unsuited to their needs and unlikely to do them much good. Some adults believed that such kids could not learn. Schools in many cases did not know how to educate them well. And few states or districts had focused on the problem.

So Congress did—and President Ford signed the bill, albeit with misgivings. (His "signing statement" presciently declared that "[T]his bill promises more than the federal government can deliver, and its good intentions could be thwarted by the many unwise provisions it contains.")

The federal program is input-driven, rule-bound, compliance-obsessed, and inattentive to learning outcomes. It is sorely out of touch with an era oriented to academic standards and achievement, to giving families quality choices among good schools, to intervening in unsuccessful schools, and to individualizing every student's education, often with the help of technology. It is also essentially limitless when it comes to the costs to be incurred by states and districts following this law.

Yes, it cries out for a radical overhaul.¹ And yet it does not prevent states from putting into place some practices and strategies that work better than others. Bear in mind that states and districts account for the lion's share of special-education funding and that this part of their education budgets has ballooned in recent decades, both because the special-ed pupil rolls have swelled and because costs in this realm are exceptionally difficult to keep within bounds (in part because of federal "cost-may-not-be-considered" and "maintenance-of-effort" rules).²

Adding to the costs and further complicating the picture is the subset of disabled students who need very extensive services, sometimes costing hundreds of thousands of dollars each year for each such pupil. Without appropriate planning, meeting their needs can over-stretch district budgets, especially in smaller jurisdictions (and free-standing schools such as charters), putting pressure on the education of other children, causing fiscal distress, and giving rise to political discord.

This paper does not purport to revamp national special-education policy or to solve all of its financial problems. Instead, it focuses on three specific challenges that are often encountered when districts, especially small districts, grapple with the costs of their highest-need special-education students, and it makes three recommendations that districts and states could put into practice today, without waiting for reforms or help from Washington, as they seek ways to mitigate those problems:

- 1. District Cooperatives:** Many districts—including charter schools, which often comprise their own mini-districts—do not have the requisite size and capacity to serve high-need students effectively and affordably. Multi-district co-ops allow for both economies of scale and better service delivery for these children.
- 2. Student Funding Based on Multiple Weights:** Special-ed funding systems based on average student needs may be easily administered, but they can also lead to inefficient and ineffective resource allocations. Weighted student funding is a tiered system of resource allocation that allows for a more rational and efficacious distribution of funds, enabling districts with more high-need pupils (or pupils who require more dollars to pay for their IEP-mandated services) to receive more money while jurisdictions that need less receive less. Basing those weights on services needed by children rather than disability diagnoses significantly improves the accuracy of this system.
- 3. Exceptional-Need Funds:** Districts (especially small ones) sometimes find themselves overwhelmed by the high cost of educating one or two particularly needy children. This type of fund, managed and predominantly financed by the state, acts as an insurance mechanism for districts that can't cover the full cost of educating high-need pupils along with all others under their purview.

Let's say it again: Special education is in need of a top-to-bottom makeover that nobody seems willing or able to undertake. But some worthy repairs can be made around the periphery of current policy—and the three set forth in this paper are well worth undertaking by states and districts across the land.

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Introduction

IDEA mandates a “free and appropriate public education” for every child with a disability. However, what’s “free” to the student is not free to the taxpayer—or, for that matter, to other students being educated within the same finite budget. The average learning program for youngsters in special education costs more than twice the average program for general-education students, and added together comprise at least 21 percent of total education budgets (to cover about 13 percent of the K-12 population).³ According to the latest available data (which are over a dozen years old), that money generally comes from the state and local districts in roughly equal parts (40 to 45 percent each), with the remainder (10 to 20 percent) flowing from Washington via a complicated network of grants (such as IDEA Part B and Medicaid).⁴ (The federal share is a topic of endless attention in the special-education field and among state and local officials, nearly all of whom believe that the federal government should be contributing a much larger share.)

Cost considerations—who should pay, how much, and how effectively—grow even more thorny when we turn to the education of the *most* severely disabled or highest-need pupils, the bill for whose education may exceed a hundred thousand dollars per child per year. And the distribution of those dollars is complicated, sometimes unfair, and often inefficient.

That’s the topic of this brief: how most efficiently to pay for and deliver education for the country’s highest-need students. Though their numbers are small, their ranks are growing (more on that below) and their education programs require careful consideration to meet their needs within the constraints of the public purse.

Who Are “High-Need” Students?

We define this group as, roughly, those whose education presently costs at least three times that of the average general-education student. Accepting this imprecise, cost-based measure, high-need students comprise about five percent of the special-ed population—but often a much larger share of district budgets.⁵

Note, however, that while this method of “framing” the discussion is useful, it’s inherently imprecise. Some less needy special-education students—often those guided by insistent parents and aided by skilled attorneys—end up being included in such a cost-based tally. Further, some of our most at-risk—hence, neediest—children are not included in this kind of measure, possibly because they are not receiving services that would benefit their education.

Also noteworthy is the lack of outcome data for this subset of the special-education population. NCLB allows each state to count 1 to 3 percent of its students as candidates for “alternate achievement standards,” which could mean just about anything as long as they employ “commonly accepted professional practices.”^{6,7} The mandate also allows for up to 5 percent of the student population to go untested due to issues outside of the district’s control (e.g., absenteeism). Without standard measures for evaluating the effectiveness of what high-need students are learning—which, in many cases, cannot be determined via the state’s regular assessment system—it is virtually impossible to measure outcomes against money spent (or any other input).⁸

Why It Matters

It's pretty clear that the number of high-need youngsters is rising. Between 2000-01 and 2009-10, the population of students with autism spectrum disorders (which require, on average, almost three times the number of dollars as students with less severe disabilities) quadrupled:^{9,10} In California alone, over 45,000 additional students were determined to be "on the spectrum" in the 2000s.¹¹ Since 2003, Massachusetts schools have enrolled over 30,000 additional students who have been diagnosed with autism or moderate-to-severe health, communication, or neurological impairments, while the number of lower-cost, specific learning disabilities decreased by nearly the same amount.¹² The Bay State also saw its special-education spending increase by 57 percent between 2001 and 2010 (as overall education spending rose 42 percent), due in large measure to growth in the number of high-need students.

Yet much of the spending on these children's education is poorly targeted. Some of this inefficiency stems from IDEA's stipulation that cost cannot be considered when determining students' individualized education programs (IEPs). Some arises from the convoluted intersection of federal, state, and local funding streams that comprise special-education financing. And some comes from archaic estimates of cost or shortsighted funding formulae meant to get average student funding right, rather than adjusting them to the circumstances of individual children. This confluence means that some districts receive more money than necessary to educate their students, while others receive too little—sometimes much too little.¹³

Our purpose here is to ensure that high-need students are afforded essential—and efficacious—education services without overburdening strapped district budgets or causing the education of other youngsters to suffer.¹⁴ This brief examines three common inefficiencies at the state and district levels in how special education for high-need students is currently funded and suggests pragmatic approaches to addressing them.

Problem #1: Insufficient Scale

To make a proper mulligatawny soup for a single eater requires the same elaborate mixture of ingredients as making the same soup for eight. Indeed, many of those ingredients must be purchased in the same quantity regardless of how many will be dining, as few groceries sell individual celery stalks, single bouillon cubes, or spices by the pinch.

So it is with districts. High-need pupils often require multiple and complex services to reach their educational goals (including speech-language pathology, new technologies, and specialized transportation). Whether educating one or eight such youngsters, all of those services must be provided. While large districts have inherent economies of scale, smaller districts and charter schools do not. Hence they must often make mulligatawny for one, including all of the fixed costs of that recipe.¹⁵ They may, for example, only require a few hours a week of services from the speech pathologist for their one or two high-need children, yet they may have to employ (or contract) with him on a half- or full-time basis. Similarly, they may be obligated to own and operate a specialized van for one or two youngsters, although it—and its driver—could easily serve multiple students.

Faced with the complex recipe of education services (and administrative support) needed, instead of providing in-district services, many small districts opt to send their highest-need students into private school placements. That is not necessarily a bad option for districts—and it's often appealing to families—but it's usually quite costly. In 2007, Jay Greene and Marcus Winters, using data provided by the Special Education Expenditure Project, calculated that private special-ed placements cost, on average, \$10,000 more per student per year than within-district placements for similar students.¹⁶

Yet the in-district alternative is not cost effective, either, when there are no economies of scale and when districts must purchase equipment or employ staff to serve just a few youngsters. Though the threshold for efficient education-program delivery is heavily impacted by individual needs, district leaders and special-education providers generally say that four pupils with a particular disability type is the beginning of efficiency for service delivery.¹⁷ Fewer than that and the cost of hiring staff and buying equipment doesn't make economic sense.

Solution #1: Cooperatives

The best way for a smaller district or charter school to leverage its special-education resources is to help *create* the economies of scale it is missing out on.¹⁸ Educational cooperatives allow districts both to reach the minimum threshold needed for efficient programming and to provide more complete—and perhaps more effective—services to their pupils. A 2005 report from Massachusetts, for example, found that if an additional 10 percent of state special-education dollars in the Bay State was channeled to collaboratives (rather than to individual districts), the state could have saved \$46.5 million that year.¹⁹

Cooperatives take various forms. Some are administered by district personnel, while others are administered by external providers. Some have governance arrangements fixed by statute, while the structure of others is determined by participating districts. Some tap existing district employees to staff the cooperative and operate its programs, while others contract that work out or hire full-time employees of their own. Each approach has predictable benefits and drawbacks. Cooperatives administered by districts limit overhead costs, for example, as there's no need to hire new administrative staff. On the other hand, regional service centers with their own such staff often have the capacity to provide more diverse services. How these staff interact with member districts varies, too. While many co-ops provide direct site-based support for high-need students (acting as a sort of district-governed out-placement program), others supply itinerant teachers, support staff, and technologies that rotate among (or are otherwise shared by) member districts. These co-ops, then, provide the services and human capital for schools to educate their neediest pupils in-house—yet with the costs of service-delivery shared across several jurisdictions.

Co-op funding mechanisms also vary by state. Some are funded through member-district dues, while others are funded directly by state dollars or non-member districts that purchase services from them—like professional development, adaptive equipment rental, or full-day education programming. Many are funded by a combination of such options.

While the decision of whether or not to join a collaborative is mostly up to districts, states can provide encouragement. For example, they can remove statutory or regulatory barriers to joining collaboratives and ensure that SpEd dollars can flow to them. (Most already do this.) States may also create financing incentives, such as subsidizing some of the collaboratives' costs. (As the case of Massachusetts shows—see sidebar—monitoring these entities can also be an important role for states.) However, for any state with small districts (i.e., most states), encouraging this sort of collaboration should be a top priority, no matter what form it takes. Economies of scale can truly be realized—to the benefit of both kids and budgets.

State Showcase

The thirty “educational collaboratives” in **Massachusetts** served 8,500 students in 2011. (About two-thirds of these children are “high need”; others are mobile, are gifted, or receive vocational education, etc.)^{20,21} As allowed under the Bay State’s own 1974 SpEd law—a year ahead of Uncle Sam—each collaborative is governed by representatives from participating districts (either the superintendent or a school-committee member) and charter schools (a board member). The services provided by the collaborative, stipulations for entry into it, and kindred decisions are built into the organization’s articles of incorporation—subject to approval by the state education commissioner.²²

All are public entities and serve as their own fiscal agents.²³ (This distinction has repercussions for staff: Their employees are not eligible for tenure, for example, though they are members of the state pension system.) Bay State collaboratives are funded mostly via member and non-member payments for services rendered—though they are also eligible for federal and state discretionary grants and philanthropic donations.²⁴ The amount paid for each student served is up to the individual collaborative. In 2009, the Massachusetts Department of Education reported that 40 percent of out-placed special-education students attended programs run by collaboratives, while the other 60 percent were sent to private placements. The average out-placement cost at a private school for these youngsters (who comprised about 1 percent of the total student population) was \$51,000 per year. When served through a collaborative, the students’ education programs cost an average of \$32,000 per year.²⁵

Member districts provide collaboratives with classroom space to deliver education services to high-need students. When such space is scarce, collaboratives lease or purchase space elsewhere.

In 2012, after press accounts of fiscal irresponsibility in some collaboratives, Massachusetts revised its approach,²⁶ adding financial-reporting requirements (annual external audits), state-appointed advisors to serve on each collaborative’s board, and mandatory training for new board members. It also banned collaboratives from paying their board members.²⁷

Problem #2: Broad-Brush Funding

Belying its own name, special-education funding is often exceedingly unspecialized. Federal dollars arrive in state coffers via formulae that base funding on a state’s special-education population combined with its overall size and poverty level.²⁸ State monies are often distributed to districts via similarly broad allocation schemes. Roughly speaking, state systems for distributing SpEd dollars divide into seven categories (see Figure 1), the two most common being variations on weighting (used in nineteen states) and block funding (used in fourteen states). Nearly one-third of states give blocks of money, untethered to special-education enrollments or district need. Seven states do this by rolling all dollars into gen-ed distributions—not earmarking any for SpEd—while seven others opt for “census-based” funding, which apportions dollars across districts based on an assumed distribution of students with special needs. For example, New Jersey’s formula multiplies the excess cost of educating students in special education (based on FY2006 audited costs) by the average special-education-classification rate statewide and by the district’s total enrollment.²⁹ These broad-brushed mechanisms have many supporters, but they are inefficient when used to fund high-need students.

Let’s be clear: This approach does have obvious pluses. Census-based allocations for students may remove financial incentives for districts to inflate student diagnoses in order to garner more state dollars.³⁰ Jay Greene and Marcus Winters make this case:

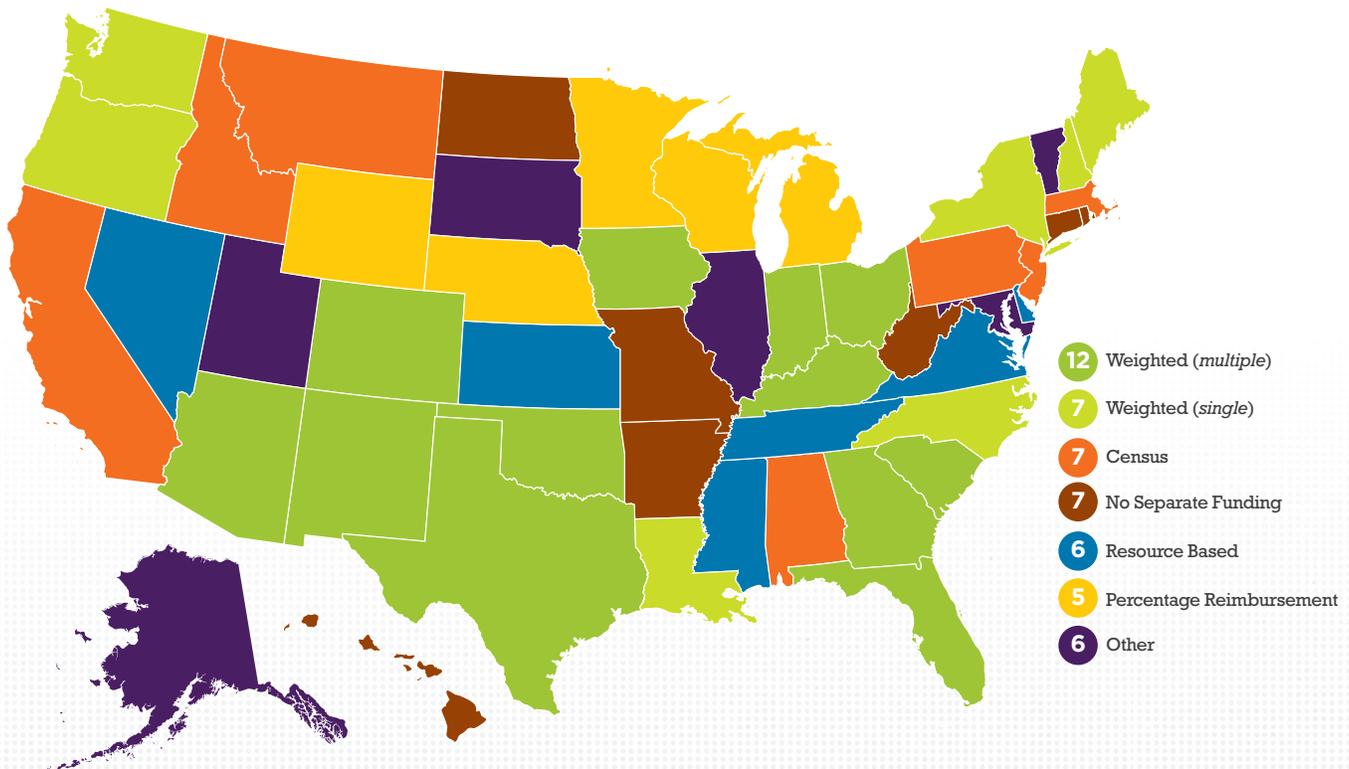
School districts have traditionally received state funding for special education, which makes up the bulk of all special education funding, in such a manner that they receive more money if their special education programs are larger [i.e., if they enroll more students labeled as special education]. This provides school districts with a financial reward—a bounty, so to speak—for placing students in special education.

Greene and Winters go on to determine that between 1991–92 and 2000–01, special-education enrollments grew 1 percentage point less in census-based funding systems than in systems that distribute dollars according to individual student needs.³¹

Yet these formula-driven systems by no means ensure *efficient* allocation of resources in high-need situations. While they may work well for widespread disabilities (e.g., mild learning disabilities), they leave districts vulnerable to the extraordinary costs associated with the neediest students. Small districts are at greatest risk simply because they're likeliest to be at statistical extremes (i.e., have far more or far fewer students with high-cost services than the average). Further, census-based funding systems are not reliably associated with reduced special-ed enrollments. While four of the seven states that use this approach have diagnosis rates lower than the national average, the other three—Massachusetts, New Jersey, and Pennsylvania—have among the highest rates.³² Additionally, Texas, a state with multiweight student funding (more below), has the lowest special-education-diagnosis rates in the land. (See Figure 1 for a map of states' present funding mechanisms.)

Furthermore, census-based funding assumes a random, hence more-or-less uniform, distribution of disabilities (and related costs). This assumption does not stand up to scrutiny. New Jersey adopted census funding in 2008 as a way to decrease costs associated with SpEd funding, and in 2011 commissioned an independent report to evaluate that effort.³³ The analysis found that the distribution of disabilities is not random and that there was considerable variation both in the number of special-education students served and the types of disabilities present across districts. This is of particular concern when one considers high-need, low-incidence students because of the outsize effect that just one extra student can have on a district's budget. If the distribution of these students is not random yet the state treats them that way (as in the Garden State), districts face significant fiscal burdens and budgetary gymnastics. On the flip side, districts falling below the average arguably receive more state aid than they need. In both cases, money is being spent inefficiently. For these reasons, analysts recommended that New Jersey take into account district variations in the student population.

Figure 1: Funding Formulae by State, 2008–09



- **Multiple weights** funding weights student characteristics (such as disability type) differently, resulting in varying levels of funding for individual students.
- **Single weights** have one weight, so that all students in special education receive the same boost in funding.
- **Census** funding distributes dollars based on the assumption that each district has the average number of children with disabilities (and the cost of services is also average).
- **No separate funding** is as the name implies: special education, including funds for high-needs children, does not receive separate funds.
- **Resource-Based** funding pays for a certain number of prescribed resources, such as teachers, determined by set staff-to-student ratios that vary based on disability.
- **Percentage Reimbursement** reimburses districts for a percentage of allowable expenditures.
- **Other** refers to a variety of funding mechanisms, such as hybrid systems or those based on prior-year revenues.

Solution #2: Student Funding Based on Multiple Weights

Census-based funding partially solves the problem of overdiagnosis. (Only partially, as parents may still press on districts to provide the highest levels of service possible—and additional services of various kinds.) But it also carries the problems that accompany ill-targeted funding. By comparison, funding high-need students based on multiple weights—or “multiweight funding”—sets up a sturdier, albeit still imperfect, framework.³⁴ Under such a system (employed by a dozen states in 2009), dollars are distributed in tiered amounts. A student receiving standard instruction receives unweighted, base-level funding (and thus has a “multiplier” of one).³⁵ A student receiving some additional supports may have a multiplier of 1.5, or 2. For those who require significant additional supports, the multiplier may be 4 or even more (for example, Ohio’s multiplier for autism and traumatic brain injuries is 4.72). How a student qualifies for those tiers—as well as the number of tiers—depends on state policy.

The typical way that states assign weights (within special education) is through medical diagnosis alone (which, despite its ubiquity, is not the best method; see below). For example, in South Carolina where the base state aid was about \$5000 per pupil (2009), a student diagnosed with autism would bring her district \$12,850 (\$5,000 times the multiplier of 2.57, see Table 1).

Table 1: South Carolina Disability Weights

Disability	Weight (multiplier)
Speech disabled	1.90x
Educable mentally disabled and learning disabled	1.74x
Trainable mentally, emotionally, or orthopedically disabled	2.04x
Homebound	2.10x
Visually disabled or hearing disabled	2.57x
Autism	2.57x

Fund Services, Not Diagnoses

But while accurate diagnoses may correctly describe the nature of a child’s disability, they do not necessarily predict what education (and other) services he or she may need—deciding upon what to base weights is crucial. Joey, a student with an emotional and behavioral disorder (EBD), for instance, may require full-day, one-on-one care in a pull-out learning environment, while Sasha, a youngster in the neighboring district who has the same EBD diagnosis, may simply need within-classroom supports. The latter, of course, costs far less than the former. Defining—and funding—students based on the nature of their disability treats youngsters identically whose actual situations may vary and whose education needs could be addressed very differently—and perhaps at very different costs.

One way to improve the accuracy of estimates is to apportion resources based on the scope of services that an individual needs.³⁶ Funding is thus determined based on annual education goals and the services deemed necessary to reach them, rather than on a diagnosis of the child’s condition. To calculate per-pupil funding under such a system, school officials use the goals delineated on a student’s IEP (and the student’s physical, cognitive, and social abilities) to complete a form (often called a “matrix”) that links the IEP goals with services needed and their costs. This system considers disability type, but it does not stop there.

For example, a student's IEP may require her to read one hundred words aloud and independently by the end of the IEP cycle. To reach that goal, she might need adaptive technology to access the curriculum (mid-level intensity) or daily one-on-one sessions with a language pathologist (high intensity)—the level being determined by her current abilities (physical, cognitive, and social). Funding this student under a diagnosis-based system would usually involve averaging the cost of the two (meaning the mid-level student's district receives more money than is necessary, while the district enrolling the high-cost student receives too little) or assuming that everyone needs one-on-one sessions in order to cover possible costs. Using a system based on students' need for services, however, allows for better funding estimates in both circumstances.

Along with more tailored and targeted cost estimates, transitioning away from a diagnosis-based system decreases incentives for overdiagnosis (or at least decreases the payout). Instead of a borderline student either having or not having autism (a difference of many thousands of state dollars), the difference may be a two or a three on a five-point scale measuring communication skills (within a matrix of many different skills). Being a borderline student and falling over that line may mean a mild increase in estimated need, but the jump is significantly less than jumping from a no diagnosis to a yes.

At the same time, no system—no matter how well structured—will prevent parents from pressing for additional services for their kids. Parental advocacy is a given, but funding services based on student abilities and goals, not just disability diagnoses, leaves the district with a more appropriate level of aid based on the needs of that student.^{37,38} How far they choose to go in accommodating parental demands after that is up to the district.

When done right, a multiweight funding system gets money into the hands of the districts that truly need it, while also limiting incentives for overdiagnosis. Those providing few (or inexpensive) special-education services receive less aid; those with heavy service demands receive more. And there are enough funding “tiers” to ensure that costs (and funding levels) align with true student need.

State Showcase

A few states are incorporating services-based measures in their SpEd funding formulae. **Florida** has led the way with its Multi-Tiered System of Supports (MTSS), which it has been refining since 1997.³⁹ As described, MTSS uses “need-driven” decision making to vary the intensity of services and resources across students. Within that system is the “Matrix of Services”—most recently updated in 2012—which applies only to students with the most intensive needs. To identify cost, it asks schools to rate students' needed levels of support across five domains: (1) adaptation to the general curriculum and learning environment, (2) social/emotional behavior, (3) level of independent functioning, (4) healthcare requirements, and (5) communication abilities—as well as a few “special considerations” (such as visual impairments or eligibility for hospital or home-based care).⁴⁰

Filling out the student-specific matrix, a district staffer determines the frequency and intensity of support that this particular child needs to meet her IEP goals within each domain, as well as the requisite level of qualification of those who will provide that support. These are based on a five-point scale and must be documented with statements from the student's IEP. The completed matrix enables all points to be added up, creating a “cost-factor” score, which—combined with other weightings (district wealth, for example) and revenue sources (transportation, for example, is funded from a separate coffer)—determines the state funding for that particular pupil. Student matrices are recalculated every three years or whenever documented IEP services are changed. The system has been modified over time to incorporate fewer weights (from five to two), decreasing the differentiation in funding, but it still bases the cost factor on services needed—not diagnosis.

Problem #3: Disproportionate District Burden

Anecdotes abound of individual high-need students who cost upwards of \$200,000 annually to educate, straining district (and charter school) budgets with private placements, one-on-one staffing, complex equipment, and/or costly transportation requirements.⁴¹ Stories like these understandably alarm educators, taxpayers, and parents: What happens if such a student moves into the neighborhood? Will the district be saddled—solely—with a huge new cost? And what if that district is small in size and meager in budget? What if it comprises just one school—as with the majority of charter schools? How can that be fair or affordable? Won't it do grievous harm to the education of other children?

Solution #3: An Exceptional-Need Fund

Thirty-two states currently have some type of “exceptional-need” fund designed to cover some or all of the cost of educating such pupils, though the rules vary widely as to how districts can access the money and how many dollars are available.⁴² An exceptional-need fund is essentially an insurance system—akin to “catastrophic health insurance”—set up by states for districts facing extraordinary costs associated with special education.⁴³ IDEA allows for a small percentage of funds earmarked for other purposes (primarily administrative) to be diverted into these special accounts, though this is not required.

While most states have such a fund, seldom is it well designed or adequately resourced, with easy directions for districts on how to apply for support and clarity as to what resources may be counted on from it (see State Showcase, see page 11). In California, for example, “extraordinary-cost-pool” funds are appropriated through the annual Budget Act—and can vary greatly from year to year. To access these funds, districts must submit retroactive claims the following year, meaning they must bear the initial cost burden for service provision without being confident that there will be sufficient funds in the extraordinary-cost pool to reimburse them the following year.

When designing or overhauling an exceptional student fund, two options are widely used for determining the threshold at which state funding kicks in.

Option 1: Set Percentage Threshold

In a delicate balancing act, some states—including Massachusetts and Kansas—pay a set percentage of costs (both chose 75 percent) that exceed a designated amount of per-pupil spending, often in the form of reimbursement to districts.⁴⁴ Such systems offer additional state support yet limit state dollars flowing to individual students—thereby keeping districts on the hook for a portion of students’ education-program costs. However, the one-size-fits-all approach does indeed require delicate balancing. If state support is too robust, districts have little incentive to limit unnecessary services. If state support is too low, districts must bear hefty educational costs. It can be very difficult to identify and stick with an optimal fixed percentage.⁴⁵

Option 2: Sliding-Scale Threshold

Though a more complex design, the “sliding-scale” approach allows for a more refined allocation of state aid—leading to more precise payouts to districts and, presumably, to more responsible fiscal behavior (and is conceptually similar to multiweight funding, though more limited in scope).

A sliding scale provides for higher state-aid allocations for students whose education programs cost many times that of the average pupil; as the cost of an individual pupil's education rises, so does the level of support from the state. For example, here is how New Hampshire's (rather generous) funding scheme works:

- Student costs 1 to 3.5 times the average student = State contributes 0 percent
- Student costs 3.5 to 10 times the average student = State contributes 80 percent of costs in excess of the 3.5 times threshold.
- Student costs greater than 10 times the average = State contributes 100 percent of costs in excess of the 10 times threshold.⁴⁶

The benefit of such a sliding scale is that it deters efforts to “pad” a student's IEP in order to lift her over a single exceptional-funds threshold. It doesn't remove all perverse incentives, but it considerably diminishes them.

State Showcase

Finding the dollars to jumpstart an exceptional-need fund—and keep it going—can be a challenge.⁴⁷ Here are three ways that states have handled this task:

- **Alabama** uses monies garnered from traffic-camera tickets to keep its “exceptional-students” fund flush.
- **Illinois** funds expenses in excess of four times the district's per-capita tuition rate using IDEA discretionary funds that were originally intended for room-and-board reimbursements for students in residential placements and were not used for that purpose.⁴⁸
- **Massachusetts** runs two “exceptional-needs” funds—one supported by annual state appropriations, the other by LEA contributions. The latter, known as the “pooled-risk insurance fund,” allows the state to operate as an insurance company, with districts paying in to be members (rather than the state picking up the tab).

Conclusion

Each of the funding strategies outlined here can stand alone, but none alone can solve all of the difficulties associated with funding services for high-need students. Cooperatives mitigate inefficiencies with economies of scale; adroitly weighted funding targets state aid to where it's needed (and the service-matrix approach further improves its targeting); and the exceptional-need funds act as insurance mechanisms to hedge against extraordinary resource demands at the district level. For that reason, we encourage states to embrace the entire package; at present, no state (to our knowledge) has a comprehensive package of such strategies for its students.⁴⁹

We're aware that IDEA and associated federal regulations don't encourage the recommendations made in this paper—but neither do they pose insuperable obstacles. Note that *every one of the strategies outlined above is currently being practiced by one or more states*. So these things can all be done, and done today, if the state possesses the requisite imagination and political will. While Uncle Sam could—and should—do a great deal to make state and district jobs in this realm easier and more affordable (starting with reform of IDEA and maintenance-of-effort regulations), there's already sufficient flexibility available for those brave enough to take advantage.

Our proposed policy changes do not begin to cure all that ails special education, but they will bring greater efficiency, rationality, and, we hope, effectiveness to a corner of the public education environment that is sorely in need of improvement.

Endnotes

1. For still-relevant advice on a thorough makeover of the special-education system, see *A New Era: Revitalizing Special Education for Children and Their Families* (Jessup, MD: U.S. Department of Education, President's Commission on Excellence in Special Education, July 1, 2002), <http://education.ucf.edu/mirc/Research/President%27s%20Commission%20on%20Excellence%20in%20Special%20Education.pdf>, and Chester E. Finn, Jr., Andrew J. Rotherham, and Charles R. Hokanson, Jr. (ed.), *Rethinking Special Education for a New Century*, (Washington, D.C.: Thomas B. Fordham Foundation, May 2001), http://www.dlc.org/documents/SpecialEd_complete_volume.pdf.
2. Nathan Levenson, *Boosting the Quality and Efficiency of Special Education* (Washington, D.C.: Thomas B. Fordham Institute, September 2012), <http://edexcellence.net/publications/boosting-the-quality-and-efficiency-of-special-education.html>.
3. Jay G. Chambers, Thomas B. Parrish, and Jenifer J. Harr, *What Are We Spending on Special Education Services in the United States, 1999-2000?* (Palo Alto, CA: Center for Special Education Finance, Special Education Expenditure Project, June 2004) page v, <http://www.csef-air.org/publications/seep/national/AdvRpt1.PDF>.
4. Ibid and "Individuals With Disabilities Education Act—Cost Impact on Local School Districts," *Federal Education Budget Project, New America Foundation*, July 10, 2013, <http://febp.newamerica.net/background-analysis/individuals-disabilities-education-act-cost-impact-local-school-districts>.
5. Calculated roughly as students with services costing over \$18,000 a year in 2000 (based on calculations in SEEP Report 5 and the distribution of expenditures calculated in SEEP Report 8, Exhibit 3). While the \$18,000 figure no longer represents three times the average general-education student, we assumed a roughly proportional increase in both general- and special-education costs. (This is the latest reliable data on cost distributions.) See Jay G. Chambers, Jamie Shkolnik, and Maria Perez, *Total Expenditures for Students with Disabilities, 1999-2000: Spending Variation by Disability* (Palo Alto, CA: Center for Special Education Finance, Special Education Expenditure Project, June 2003), http://csef.air.org/publications/seep/national/final_seep_report_5.pdf and Jay G. Chambers, Yael Kidron, and Angeline K. Spain, *Characteristics of High-Expenditure Students with Disabilities, 1999-2000* (Palo Alto, CA: Center for Special Education Finance, Special Education Expenditure Project, May 2004), <http://csef.air.org/publications/seep/national/Rpt8.PDF>.
6. "No Child Left Behind: Fact Sheet on Assessments for Students with Disabilities" (fact sheet, American Speech-Language-Hearing Association), <http://www.asha.org/uploadedFiles/advocacy/federal/nclb/NCLBFactSheetonAssessments.pdf>.
7. The 1 to 3 percent of students exempt from the state's typical achievement standards are those with the "most significant cognitive disabilities." Those students do not necessarily require costly services; however, the two very frequently intersect. See Thomas B. Parrish, Michael Gerber, Daniel Kaleba, and Leslie Brock, *Adjusting Special Education Aid for Severity: The Case of Census-Based Funding in California* (Palo Alto, CA: Center for Special Education Finance, July 2000), <http://csef.air.org/publications/csef/state/statadj.pdf>.
8. One of the few attempts to measure the efficient spending of special-education dollars is *Boosting the Quality and Efficiency of Special Education* by Nathan Levenson, although it focused on special education as a whole and not on high-need students. See Nathan Levenson, "Boosting the Quality and Efficiency of Special Education."
9. Janie Scull and Amber M. Winkler, *Shifting Trends in Special Education* (Washington, D.C.: Thomas B. Fordham Institute, May 2011), <http://www.edexcellence.net/publications/shifting-trends-in-special.html>.

10. Parrish, “Who’s Paying the Rising Cost of Special Education?”
11. “Data Quest,” *California Department of Education*, Data Quest, last modified August 21, 2013, <http://dq.cde.ca.gov/dataquest/>.
12. *The Bottom Line Report: Understanding Rising Special Education Costs in Massachusetts and the Real Cost to State Taxpayers* (Wakefield, MA: MAAPS: Exceptional Schools for Exceptional Children, December 2012), <http://www.napsec.org/MAAPS%20Cost%20Study.pdf>.
13. See, for example, William T. Hartman, “The impact of census-based special education funding in Pennsylvania,” *Journal of Special Education Leadership* 14, no. 1 (2001): 13–20.
14. Districts will often cut general-education programs or administrative overhead to foot the special-education bill because of regulations like maintenance of effort. (See, for example, Lindsay Fiori, “Special ed squeeze: General education funds needed for special education,” *The Journal Times*, April 27, 2013, [http://news.dpi.wi.gov/files/eis/pdf/Apr%2027%20-%20Special%20ed%20squeeze_%20General%20education%20funds%20needed%20for%20special%20education%20\(Burlington,%20Racine,%20Statewide\)%20\(Racine%20Journal%20Times\).pdf](http://news.dpi.wi.gov/files/eis/pdf/Apr%2027%20-%20Special%20ed%20squeeze_%20General%20education%20funds%20needed%20for%20special%20education%20(Burlington,%20Racine,%20Statewide)%20(Racine%20Journal%20Times).pdf).)
15. Small districts abound in the U.S.. For example, 40 percent of all California school systems serve fewer than a thousand students each. Ten percent of California’s school systems serve fewer than one hundred. And more than 5,000 charters now enroll students in the U.S., many of which operate as the fiscal equivalent of a tiny school district. See Rachel Ehlers, Jim Soland, and Jennifer Kuhn, *How Small Is Too Small? An Analysis of School District Consolidation* (Sacramento, CA: The Legislative Analyst’s Office, May 2011), http://www.lao.ca.gov/reports/2011/edu/district_consolidation/district_consolidation_050211.aspx.
16. Marcus A. Winters and Jay P. Greene, “Debunking a Special Education Myth,” *Education Next* 7, no. 2 (2007), <http://educationnext.org/debunking-a-special-education-myth/>. This report builds off data from Jay G. Chambers, Yael Kidron, and Angeline K. Spain, *Characteristics of High-Expenditure Students with Disabilities, 1999-2000*.
17. We heard from numerous district and special-education cooperative leaders that this was the average number necessary to provide services efficiently. Of course they added that some disabilities fared better with a two-to-one student-teacher ratio, while other classes could provide a satisfactory education to high-need pupils with an eight-to-one ratio or higher.
18. Even rural districts can take advantage of co-ops, as exemplified by Virginia’s Shenandoah Valley Regional Program for Special Education.
19. M. Craig Stanley, ED.D., *Massachusetts Collaborative: Making the Most of Education Dollars* (Boston, MA: The Pioneer Institute for Public Policy Research, June 2005), <http://pioneerinstitute.org/download/massachusetts-collaboratives-making-the-most-of-education-dollars/>.
20. For more information, see “Educational Collaboratives,” Massachusetts Department of Elementary and Secondary Education, last updated September 9, 2013, <http://www.doe.mass.edu/finance/collaboratives/>.
21. Marjorie Pritchard, “More accountability needed for educational collaboratives,” *The Boston Globe*, October 25, 2011, http://www.boston.com/bostonglobe/editorial_opinion/blogs/the_podium/2011/10/more_accountability_needed_for.html.
22. Massachusetts General Laws, Part 1, Title VII, Chapter 40, Section 4E, May 31, 2012, <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section4E>.

23. Nonprofit organizations also wear the “collaborative” label in Massachusetts; those organizations operate outside of state guidelines and often engage in advocacy work and similar efforts. Districts may work with those organizations, but they are not our focus here. (See <http://wecollaborative.org/> for an example of such a nonprofit collaborative.)
24. “Collaborative Issues: Formation of Educational Collaboratives,” Massachusetts Organization of Educational Collaboratives, accessed October 14, 2013, <http://moecnet.org/policy/collaborative-issues>.
25. Matthew Deninger and Robert O’Donnell, *Special Education Placements and Costs in Massachusetts* (Malden, MA: Office of Strategic Planning, Research, and Evaluation, March 2009), <http://www.doe.mass.edu/research/reports/0309sped.pdf>.
26. Emmeline Zhao, “Massachusetts Special Education Funds Misspent, Auditor Calls For Collaborative Reform,” *Huffington Post*, September 01, 2011, http://www.huffingtonpost.com/2011/09/01/massachusetts-special-edu_n_945196.html and Colleen Quinn, “Mass. Senate adopts checks on education collaboratives,” *Eagle Tribune*, January 12, 2012, <http://www.eagletribune.com/local/x594873423/Mass-Senate-adopts-checks-on-education-collaboratives>.
27. Mitchell Chester, Ed.D., “Education Collaboratives: Summary of New Laws and Proposed New Steps,” Massachusetts Department of Elementary and Secondary Education, last updated May 1, 2012, <http://www.doe.mass.edu/news/news.aspx?id=6818>.
28. Individuals with Disabilities in Education Act: Subpart G of the Part B Regulations: Use of Funds; Accessed through the National Dissemination Center for Children with Disabilities, <http://nichcy.org/laws/idea/partb/subpartg#300.703>.
29. Eileen Ahearn, Ph.D., *Financing Special Education: State Funding Formulas* (Alexandria, VA: National Association of State Directors of Special Education, 2010), http://nasdse.org/DesktopModules/DNNspot-Store/ProductFiles/82_dce66976-08dd-4cdd-abbd-1397e973c81a.pdf.
30. Jay P. Greene, Ph.D., *Effects of Funding Incentives on Special Education Enrollment* (New York, N.Y.: Manhattan Institute for Policy Research, 2002), http://www.manhattan-institute.org/html/cr_32.htm.
31. Ibid.
32. Ben Wieder, “State Special Education Rates Vary Widely,” *Disability Scoop*, January 25, 2012, <http://www.disabilityscoop.com/2012/01/25/state-special-education-rates/14849/>.
33. Augenblick, Palaich, and Associates, *Analysis of New Jersey’s Census-Based Special Education Funding System* (Augenblick, Palaich, and Associates, Inc., Prepared for the New Jersey Department of Education, October 2011), <http://www.state.nj.us/education/finance/sereport.pdf>.
34. Seven states have *single* student weights, meaning that districts receive additional special-education funding on a yes-no basis, regardless of the severity of a child’s disability or the amount of educational services needed.
35. Weights are not restricted to special education, however. A state may weight students based on whether they are in a small or large district, if they are in poverty, etc.
36. This idea originated from Rune Simeonsson and Donald Bailey’s 1991 (revised in 2006) ABILITIES Index. The original ABILITIES Index can be found at Rune J. Simeonsson and Donald B. Bailey, *The ABILITIES Index* (Chapel

- Hill, NC: Franklin Porter Graham Child Development Center, 1991), <http://fpg.unc.edu/node/365>.
37. A 2000 report estimated that disability categories explain only 27 percent of the variation in total expenditures for students with disabilities. The service-based approach outlined here offers a 15 percent more accurate predictor of expenditures. See Jay Chambers, et al., *Educating Students with Disabilities: Comparing Methods for Explaining Expenditure Variation* (Palo Alto, CA: Center for Special Education Finance, May 2004), <http://csef.air.org/publications/seep/national/Rpt7.pdf>. In addition, more fine-grained measurements of student needs (and the costs associated with them) limit ambiguities in the judicial process; they provide clearer expectations (and limitations) as to what constitutes “free and appropriate” education.
 38. Service-based metrics have other long-term advantages, too, such as their compatibility with broader backpack funding (which allows education dollars to travel with the child to various service providers).
 39. Other factors—including the student’s tier on the state’s Multi-Tiered Support System, the IEP goals, and the districts’ own financial commitments—are taken into account as well, though for those students with the highest level of needs, the Matrix is the principal factor.
 40. Florida’s Matrix of Services Handbook can be found at <http://www.broward.k12.fl.us/studentsupport/ese/PDF/MatrixHandbook6-13-12.pdf>. Under Florida’s Multi-Tiered Support System (MTSS), students are provided targeted services early in their educational career (think Response to Intervention [RTI]), with the goal of bringing as many as possible into full inclusion classrooms. MTSS tiers students in three levels of support; high-need pupils fit in Tier 3. For more information visit <http://www.florida-rti.org/floridaMTSS/index.htm>.
 41. Nanette Asimov, “Extra-special education at public expense,” *The San Francisco Chronicle*, February 19, 2006, <http://www.sfgate.com/education/article/Extra-special-education-at-public-expense-2504091.php>; Sharon Otterman, “A Struggle to Educate the Severely Disabled,” *The New York Times*, June 19, 2010, http://www.nytimes.com/2010/06/20/education/20donovan.html?pagewanted=all&_r=1&gwh=C88DD885399367BEF32A4ADD74212C01; and Marsha Sutton, “The Cost of Special Education,” *Del Mar Times*, August 30, 2012, <http://www.delmartimes.net/2012/08/30/the-cost-of-special-education/>.
 42. This number is based on state-by-state analyses conducted by the authors.
 43. Similarly called a high-need fund (e.g., Missouri) or catastrophic fund (e.g., Arkansas, Ohio) in different states.
 44. Massachusetts (M.G.L. c.71B, s.5A) reimburses at 75 percent of all program spending (less transportation) that is over four times the state’s average per-pupil cost. Kansas reimburses at 75 percent for program spending that is over double the “teacher entitlement” from the previous year. Matthew Deninger and Robert O’Donnell, *Special Education Placements and Costs in Massachusetts* (Malden, MA: Office of Strategic Planning, Research, and Evaluation, 2009), <http://www.doe.mass.edu/research/reports/0309sped.pdf>.
 45. *Ibid.* For instance, Massachusetts could potentially see a benefit to lowering its reimbursement in order to incentivize greater participation in their cooperative system. There, a number of students are placed in private outplacements—despite the state’s healthy district co-op environment. This is likely due, in large part, to the state’s relatively high reimbursement rates: District co-ops may educate students for a price below the reimbursement threshold, private outplacements above it. Thus districts may opt to send students to more expensive private outplacements in order to secure state dollars.
 46. *New Hampshire Rules for the Education of Children with Disabilities* (Concord, NH: New Hampshire Department of Education, June 2008), http://www.education.nh.gov/instruction/special_ed/documents/nh_rules_2012_web.

pdf.

47. While IDEA allows states to shift 10 percent of their IDEA set-aside funds into an exceptional-needs fund, Washington does not provide extra dollars to do so—and so few states take advantage. (See IDEA Title 1/B/611/e/3/A/1, U.S. Department of Education, <http://idea.ed.gov/explore/view/p/%2Croot%2Cstatute%2CI%2CB%2C611%2Ce%2C3%2CA%2Ci%2C>.)
48. The benefit of such a system is that it takes advantage of the policy mentioned in Footnote 47, shielding the program somewhat from year-to-year budget battles. Because the money is coming from IDEA, its uses are limited to those set by the federal government. (See “Illinois Compiled Statutes, *Illinois General Assembly*, <http://www.ilga.gov/legislation/ilcs/fulltext.asp?DocName=010500050K14-7.02b>.)
49. Note that a multiweighted funding system can be designed in such a way as to make an exceptional-needs fund unnecessary. For accounting reasons, however, it may make sense to maintain this separate fund. See Footnote 47.